STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony

Planning and Zoning Committee

March 7, 2014

Raised Bill No. 265 AN ACT CONCERNING LIMITS ON FLOOD INSURANCE POLICIES.

Senator Osten, Representative Rojas, and members of the Planning and Development Committee, the Insurance Department appreciates the opportunity to provide written testimony regarding S.B. 265.

S.B. 265 would appear to be designed with the intent to lower the amount of flood insurance a property owner is required to carry, tying flood policy limits to amount owed. The Department believes that this bill raises more questions and potential issues and would respectfully request the Committee oppose the bill.

While we understand the intent (to lower cost of flood premiums), we do question the impact and unintended consequences for property owners who may now find him/herself underinsured when a major flooding event occurs. The Department offers the following comments for consideration and discussion purposes.

1. This act would not apply to federally chartered institutions.

2. There are no notification requirements warning the mortgage applicant of the potential dangers of underinsuring their property and even if there was such a disclosure required, we have learned from past experience that after a flood event many are likely to plead "I did not know..."

3. Concerns regarding the lending community's refusal to underwrite loans in flood zones (subject to any geographic/redlining limitations that may exist).

4. Who is the ultimate decision maker (the property owner or lender) on what damage will be fixed and what does not get fixed when claim proceeds are less than the damage incurred?

   For example, if you currently hold a mortgage at $100,000 on a $500,000 house and you buy a flood policy with a cap of $100,000, who decides what gets fixed and what does not get fixed when you have $300,000 in damages? The bank would not really be protecting its collateral unless they were allowed to take the $100,000 to pay off the mortgage.

5. In the instance of Super Storm Sandy New York lenders refused to release insurance proceeds until the borrower could demonstrate that he or she could complete the repairs and restore the home to its pre-storm condition. From the lenders' perspective, they do not want the insurance proceeds to repair half a home, and then be unable to sell that home for anywhere near its pre-storm value because it's still in disrepair. In instances where the home cannot be repaired to its pre-storm value, the lender can keep the insurance proceeds up to the value of the loan.

6. In Connecticut, we have learned since Tropical Storm Irene, and Super Storm Sandy, that even with NFIP insurance, Private insurance and FEMA assistance there still a great many individuals with significant "Unmet Need", that is more loss than they have insurance dollars or federal assistance to cover. Individuals are often left with tens of thousands of dollars of uninsured loss. This bill will only exacerbate this issue and place individuals and homeowners in a more tenuous situation. We should be promoting responsible behaviors and encouraging people to purchase more insurance to protect their property to ensure they are made whole in the event of a loss.

7. We question if banks will continue to lend if an insured can purchase lower flood limits that wouldn't adequately protect the property. In these instances, insureds would be self-insuring greater risk and depending on the extent of damage, property owners could ultimately walk away from his/her property as seen in "Sandy". Property owners must decide whether to rebuild (assuming he or she has the funds), or abandon their properties. Based on experiences in other states during "Super storm sandy" lenders may hold claim proceeds if the property owner is unable to rebuild.

8. It is also worth noting that the Connecticut (and the Northeast in general) take up rate for flood policies is one of the lowest in the country. While lowering the limits could result in more purchases, we could find more residents to be underinsured. We also question if a catastrophic event occurs, will the Federal government step in if property owners are underinsured? During "Sandy" we saw claimants with no coverage apply for federal assistance quicker than those without coverage. Does the underinsured claimant create a new "bucket" for claim assistance purposes?

In conclusion, this Administration recognizes flood insurance premiums are an issue. Governor Malloy has announced the creation of the shoreline resiliency fund. He is seeking the assistance of the legislature to provide an additional $25 million for this fund to help homeowners elevate their homes, thereby reducing their flood insurance premiums and at the same time making them more resilient to future storms. The Insurance Department thanks the Planning and Development Committee for the opportunity to provide testimony on Senate Bill 265.

About the Connecticut Insurance Department: The mission of the Connecticut Insurance Department is to protect consumers through regulation of the industry, outreach, education and advocacy. The Department recovers an average of more than $4 million yearly on behalf of consumers and regulates the industry by ensuring carriers adhere to state insurance laws and regulations and are financially solvent to pay claims. The Department's annual budget is funded through assessments from the insurance industry. Each year, the Department returns an average of $100 million a year to the state General Fund in license fees, premium taxes, fines and other revenue sources to support various state programs, including childhood immunization.